

August 28, 2020

VIA FIRST-CLASS MAIL AND ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

**Re: Docket 5054 - 2020 Pension Adjustment Factor Filing
Responses to PUC Data Requests – Set 1**

Dear Ms. Massaro:

Enclosed please find one copy of National Grid's¹ responses to the First Set of Data Requests issued by the Public Utilities Commission in the above-referenced matter.

Thank you for your attention to this matter. If you have any questions, please do not hesitate to contact me at (401) 709-3337.

Sincerely,



Leticia C. Pimentel

Enclosures

cc: Docket 5054 Service List
Leo Wold, Esq.
John Bell, Division
Al Mancini

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

**Docket No. 5054 - National Grid's Electric 2020 Pension Adjustment Factor
Service List as of 8/20/2020**

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The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 5054
National Grid's 2020 Pension Adjustment Factor Filing
For the Twelve-Month Period Ending March 31, 2020
Responses to the Public Utilities Commission's First Set of Data Requests
Issued August 17, 2020

PUC 1-1

Request:

What were the factors that caused the Company to over-recover PBOP expense in FY 2020 by over \$5 million?

Response:

Prorated rate allowances determined in Docket No. 4770 (effective September 2018) reflect census data, claims experience, demographic, and economic assumptions included in fiscal year ended March 31, 2018 actuarial calculations. However, FY2020 actual expense reflects updated census data, claims experience, demographic and economic assumptions included in fiscal year ended March 31, 2019 actuarial calculations. Overall there was favorable claims experience and favorable demographic assumption change that caused the actual FY2020 PBOP expense to be less than the estimated expense applied in Docket No. 4770 driving the FY20 PBOP over-recovery.

Leading into the March 31, 2019 fiscal year end, our external actuary recommended that the Company perform a study of our PBOP assumption around Pre65 participation rates. Participation rates are the rates at which participants elect to participate in the Company's plans. The study concluded that the Company's participants were not electing to participate in the PBOP plans as much as previously assumed, and therefore, this demographic assumption was updated to align with the conclusions of the study. This change resulted in a lower liability and lower FY2020 PBOP expense.

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PUC 1-2

Request:

The Joint Testimony of Jefferey Oliveira and James Allen, on page 7 of 10, indicates that the Minimum Funding Obligation is over funded on a cumulative basis. Please explain the extent of the over-funding, why this is the case, and the implications for ratepayers, if any.

Response:

At March 2020 the extent of the cumulative Minimum Funding Obligation overfunded status referred to on page 7 of 10 is \$0.4 million dollars.

Overfunding (or possibly underfunding) arises periodically due to timing. The Company uses a number of estimates, including rates of capitalization and estimated deferral recoveries, when developing the annual funding plans.

Article II, Section C.22.b (Minimum Funding Obligations), Bates Pages 82-83 of the Amended Settlement Agreement in Docket Nos. 4770/4780 dated August 16, 2018 states, "[t]he Company will be required to accrue and defer carrying charges on only the net unfunded pension/PBOP amounts." This requirement protects customers and compensates them if net pension/PBOP Minimum Funding Obligation is underfunded. There is no requirement for customers to compensate the Company for cash that it has over contributed to the pension or PBOP plans. Consequently, given the current cumulative overfunding there are no implications for ratepayers.

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PUC 1-3

Request:

To what extent, if any, is the Company expecting a material change in the Pension and PBOP expenses for FY 2021 due to the COVID crisis and its impact on the stock and bond markets? Please explain the factors outside of the Company's control that could materially affect the expense.

Response:

Pension and PBOP expenses for FY2021 reflect assets and liabilities measured at March 31, 2020, the measurement date, using prevailing economic market conditions. Since March 31, 2020 was just a few weeks into the COVID crisis, market conditions impact FY2021 expense in several ways that were outside of the Company's control.

First, the liabilities and service cost are required to be measured using rates of return on high-quality corporate bonds available as of the measurement date. As of March 31, 2020, corporate bond yields had declined significantly for the prior measurement date. The Company used a discount rate of 3.65% to measure liabilities and service cost, compared to 4.10% as of March 31, 2019 and 4.30% used in the projected estimated expense rates in Docket No. 4770.

Second, the market value of assets declined significantly as of March 31, 2020. The calculation of the Expected Return on Asset ("EROA") component of expense, reflects the asset values as of the measurement date. In addition, losses related to actual FY2020 asset returns (compared to expected) impact the gain/loss amortization component of expense in FY2021.

Finally, long-term capital market assumptions by asset class are also a key input in the EROA calculation. The first quarter 2020 capital market assumptions took into account the preliminary long term impact and volatility caused by the COVID crisis. As a result, most asset classes saw a decline in expected long term returns resulting in overall lower EROAs year over year.

It is important to note that assets, liabilities and assumptions will not change until the next measurement date, March 31, 2021 unless there is a special event requiring an interim remeasurement, such as a settlement, curtailment or plan amendment. As a result, on-going changes in market conditions, such as market performance, will not be reflected in expense rates until FY2022.

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PUC 1-4

Request:

Please provide the Pension and PBOP Net Under/(Over) Recovery amounts and the Pension/PBOP Adjustment Factor for both Gas and Electric for each year since the approval of the Pension Adjustment Mechanism in Docket No. 4323.

Response:

Please see Attachment PUC 1-4 for the information requested.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 5054
Attachment PUC 1-4

Electric:

Filing Period	RIPUC Docket No.	Net Under/(Over) Recovery			Funding Carrying Charge			Pension/PBOP Adjustment Factor
		Pension	PBOP	Total	Pension	PBOP	Total	
Feb-13 - Mar-14	4518	\$623,723	(\$503,518)	\$120,205	(\$25,508)	(\$46,642)	(\$72,150)	-
Arp-14 - Mar-15	4518	\$1,244,165	(\$472,489)	\$771,676	\$0	\$0	\$0	\$0.00012
Arp-15 - Mar-16	4637	\$5,665,396	\$1,450,222	\$7,115,618	\$0	(\$101,848)	(\$101,848)	\$0.00091
Arp-16 - Mar-17	4709	(\$2,409,299)	(\$3,598,047)	(\$6,007,346)	(\$118,658)	(\$159,992)	(\$278,650)	(\$0.00085)
Arp-17 - Mar-18	4855	\$689,575	(\$2,987,532)	(\$2,297,957)	(\$26,540)	\$0	(\$26,540)	(\$0.00023)
Arp-18 - Mar-19	4958	\$2,794,009	(\$3,127,081)	(\$333,072)	\$0	\$0	\$0	(\$0.00005)
Arp-19 - Mar-20	5054	\$215,299	(\$5,210,611)	(\$4,995,312)	\$0	\$0	\$0	(\$0.00073)

Gas:

Apr-13 - Mar-14	4514	(\$159,913)	(\$948,303)	(\$1,108,216)	(\$349,956)	(\$575,936)	(\$925,892)	(\$0.0052)
Arp-14 - Mar-15	4573	(\$1,012,638)	(\$2,071,576)	(\$3,084,214)	(\$423,619)	(\$285,673)	(\$709,292)	(\$0.0094)
Arp-15 - Mar-16	4634	(\$93,635)	(\$1,855,809)	(\$1,949,444)	(\$204,381)	\$0	(\$204,381)	(\$0.0054)
Arp-16 - Mar-17	4708	(\$1,707,068)	(\$2,565,382)	(\$4,272,450)	(\$401,195)	(\$6,329)	(\$407,524)	(\$0.0118)
Arp-17 - Mar-18	4846	(\$2,811,656)	(\$3,417,375)	(\$6,229,031)	(\$10,931)	\$0	(\$10,931)	(\$0.0157)
Arp-18 - Mar-19	4955	\$362,972	(\$1,251,941)	(\$888,969)	-	-	(\$27,258)	(\$0.0022)
Arp-19 - Mar-20	5040	\$35,485	\$889,323	\$924,808	-	-	\$0	\$0.0022